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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 001023

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TAGS: [ECON](#) [ENRG](#) [BU](#)  
SUBJECT: LEGAL ADVISOR TO BULGARIA SEES DISORGANIZATION IN  
B-A PIPELINE PLANNING

REF: SOFIA 0949

Classified By: CDA Alex Karagiannis for reasons 1.4 (B) and (D)

¶1. (C) Summary: Negotiations on the Burgas-Alexandroupolis pipeline are disorganized and behind schedule, according to the U.S. attorneys advising the Bulgarian state-owned companies involved in the project. The sides are still dealing with basic issues such as the official language and incorporation site of the project company. More complex issues such as minority-owner rights and financing have yet to be tackled. Russian tactics in the negotiations have been "brutal" but Russian negotiators have been caught off-guard by Bulgaria's spirited defense of its interests. Bulgarian and Greek participants have made no genuine efforts to coordinate positions before the project company's monthly meetings, the next of which is to be held in Athens on August 27. End Summary.

#### NEGOTIATIONS BEHIND SCHEDULE

¶2. (C) In advance of the next meeting of Bulgarian, Greek and Russian officials on the Burgas-Alexandroupolis pipeline scheduled for August 27 in Athens, polecoffs met August 15 with Paris-based Liubomir Roglev of Paul Hastings (protect), the U.S. legal firm hired by the Bulgarian state-owned companies to represent them in B-A negotiations. Roglev reiterated points made to us in July by another Paul Hastings attorney, Mark Lewis (protect), that B-A negotiations are behind schedule (reftel). After the last meeting of the parties on July 12 in Sofia, Roglev, on behalf of the Bulgarians, sent a summary of items supposedly agreed upon on July 12. As of August 15, neither the Greeks nor the Russians had responded. Basic issues, such as the official language of the international project company (the Greeks and Bulgarians support English while the Russians are insisting on Russian) and where to register the company (the Russians want Cyprus, while the Bulgarians and Greeks favor The Netherlands or Luxembourg) have yet to be decided. Decisions on larger issues, such as the protection of minority-owner rights, construction costs and financing are being pushed even further down the road. At this rate, according to Roglev, a term-sheet of discussion issues, something that was supposed to be agreed upon at the end of July, will not be complete until the end of 2007.

#### NEGOTIATING POSITIONS AND TACTICS

¶3. (C) Roglev said he was surprised at the level of disagreement within the Russian negotiating team. At the July 12 meeting, the Russian side consisted of representatives of Gazprom, Rosneft and Transneft. Roglev, who understands Russian, said it was clear by the bickering coming from the Russian side that they did not approach the table with a united position. Nevertheless, Roglev characterized Russian negotiating tactics as "brutal." He described how, at one point, one of the Russian company

representatives pulled him aside to tell him to abandon his effort to negotiate a deal for Bulgaria since Bulgaria was "a small, powerless country." At other points Roglev said the Russians treated their Bulgarian counterparts as compatriots and appeared genuinely perplexed when the Bulgarian side questioned or contradicted Russian proposals. Roglev also reported that many of the Russian company representatives appear less than familiar with the particulars of international project financing. On more than one occasion, Roglev said, the Russians questioned whether it was necessary or wise to have a U.S. law firm involved in the negotiations.

14. (C) Roglev was not aware of any effort by the Greeks and Bulgarians, as minority shareholders, to coordinate their positions before the negotiations. He noted that after the July 12 meeting, he had contacted a Greek counterpart about a purely technical issue, but his question was met with suspicion and was never answered. Roglev added that Bulgarians and Greeks often share common concern over EU-related matters, whereas the Russians tend to dismiss such issues. Questions surrounding public debt limits and the possibility that Transneft will seek to enter directly into agreements with oil companies (which would violate EU anti-monopoly rules) loom large, at least in the minds of the Bulgarian participants, according to Roglev. Another question in the back of his Bulgarian clients' minds is whether Russia might, at any point, find a different route for its oil and "lose interest" in B-A.

#### FINANCING

15. (C) Roglev said his firm's role is to help the Bulgarians construct a deal that will attract project financing and which will be attractive to outside buyers in the future. He

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said no one at the negotiating table is openly discussing the future sale of interests in the pipeline to companies not already participating, but he understands Chevron and Kazmunaigaz are still interested. He was told that Kazmunaigaz believes it can fill 60 percent of the 35 million ton/year pipeline even without CPC expansion. But, he also heard that the Russians will probably oppose Kazak involvement in B-A. Roglev said banks have started to show interest in the project, but mostly in terms financial advising, not financing itself. While negotiations have not yet touched upon estimates of the total cost of the pipeline, Bulgarian Ministry of Economy experts quote a price tag of 1 billion euros.

Karagiannis